

NCA
VOC FOR IOP/FN
BACKGROUNDER NO. 1-9913
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NORTH KOREA: TRADE PROBLEMS MOUNT

ANNCR:

AN ATTEMPT BY NORTH KOREA TO LESSEN ITS DEPENDENCE ON COMMUNIST TRADING PARTNERS HAS APPARENTLY ENDED IN FAILURE. AT THE SAME TIME, PYONGYANG'S GROWING DEBT PROBLEM IS CASTING A CLOUD OVER THE FIRST-CLASS CREDIT RATING THE INDUSTRIALIZED COUNTRIES NORMALLY EXTEND TO COMMUNIST GOVERNMENT. VOA'S JOSEPH SULLIVAN HAS THE DETAILS IN THE BACKGROUND REPORT.

VOICE:

FIVE YEARS AGO THE NORTH KOREAN GOVERNMENT TURNED TO THE NON-COMMUNIST WORLD FOR TECHNOLOGY AND MANUFACTURING EQUIPMENT IN AN APPARENT MOVE TO REDUCE RELIANCE ON THE SOVIET UNION AND OTHER COMMUNIST SUPPLIERS. BUT NO SOONER WERE THE NEW TRADE DOORS OPENED THAN PYONGYANG'S FOREIGN TRADE POSITION DETERIORATED FROM A SMALL SURPLUS IN 1970 TO A BURGEONING DEFICIT FROM 1973 ONWARD. THIS WAS LARGELY THE RESULT OF SOARING IMPORT PRICES, INCLUDING THE COST OF OIL BOUGHT FROM THE SOVIET UNION AND CHINA.

FROM ALL EVIDENCE, NORTH KOREA HAS ALSO BEEN FORCED TO DIVERT EXPORTS OF IRON ORE AND TO CHINA AND THE SOVIET UNION TO PAY FOR PETROLEUM IMPORTS. IN 1974, FOR EXAMPLE, NORTH KOREA SUPPLIED JAPAN WITH LESS THAN HALF OF THE IRON ORE IT HAD CONTRACTED TO SHIP. AND OVERALL KOREAN EXPORTS TO JAPAN

FOR THE FIRST NINE MONTHS OF 1975 WERE SOME FORTY-SIX PERCENT BELOW THOSE OF THE PREVIOUS YEAR.

THE VICTIMS OF NORTH KOREA'S TRADING PROBLEMS ARE NINE OF ITS NON-COMMUNIST TRADING PARTNERS, OF WHICH THE LARGEST LOSERS ARE JAPAN AND FRANCE. DURING 1973, JAPANESE, CANADIAN AND EUROPEAN BANKS GAVE PYONGYANG LETTERS OF CREDIT TO FINANCE ITS TRADE DEFICITS. THE FIRST SIGNS THAT NORTH KOREA MIGHT HAVE SERIOUS REPAYMENT PROBLEMS ON THESE CREDITS SURFACED IN EARLY 1975. IT WAS AT THAT TIME THAT REPAYMENT ON SOME LETTERS OF CREDIT WAS NOT MADE AND BY MID-YEAR MOST PAYMENTS HAD STOPPED.

A TOKYO REPORT ESTIMATES THAT NORTH KOREA'S DELINQUENT DEBTS TO NON-COMMUNIST NATIONS EXCEED FOUR HUNDRED MILLION DOLLARS. THIS FIGURE COINCIDES CLOSELY WITH AN ESTIMATE COMPILED BY SOUTH KOREA'S FOREIGN EXCHANGE BANK. BUT, FROM PARIS, EDITH LEHNART -- CORRESPONDENT FOR THE HONG KONG "FAR EASTERN ECONOMIC REVIEW" -- SAYS THAT SOME ESTIMATES THERE PUT THE NORTH KOREAN DEBT WELL ABOVE FOUR HUNDRED MILLION -- IN SOME CASES, NEARLY TWICE THAT FIGURE.

PRIVATE JAPANESE EXPORTERS ARE BELIEVED TO HAVE LOST AT LEAST ONE HUNDRED FIFTY MILLION DOLLARS SO FAR IN CONTRACTS WITH NORTH KOREA. TOKYO BUSINESSMEN EXPLAIN THAT IF THE DEFAULTS WERE MADE BY A PRIVATE IMPORTER, THE JAPANESE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY COULD STEP IN AND RESCUE THE JAPANESE EXPORTERS. IN THE CASE OF THE NORTH KOREAN GOVERNMENT, HOWEVER, SUCH ACTION WOULD AMOUNT TO THE JAPANESE GOVERNMENT ANNOUNCING THAT

PYONGYANG IS INCAPABLE OF HONORING ITS INTERNATIONAL OBLIGATIONS. THE FACT REMAINS THAT JAPANESE EXPORTERS CLEARLY CANNOT BEAR THE FINANCIAL BURDEN INDIFINITELY. BUT NORTH KOREA'S UNPAID DEBTS CONTINUE TO ACCUMULATE.
GH/PY